

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**APPLICATION OF CIMAREX ENERGY CO. FOR THE CREATION
OF A SPECIAL POOL, A WOLFBONE POOL, PURSUANT TO
ORDER NO. R-23132, TO REOPEN CASE NOS. 22853 AND 23295
AND TO APPROVE A POOLING APPLICATION FOR THE
WOLFBONE POOL, LEA COUNTY, NEW MEXICO**

Case No. _____

APPLICATION FOR A SPECIAL POOL

Cimarex Energy Co. (“Cimarex”), OGRID No. 215099, through its undersigned attorneys, hereby files this Application with the Oil Conservation Division (“Division” or “OCD”) pursuant to the guidance of Order No. R-23132, NMSA 1978 § 70-2-17 (regarding the pooling applications referenced herein), and 19.15.4.8 NMAC seeking an order for the creation of a special Wolfbone Pool, an oil pool, to be designated as the “Quail Ridge; Wolfbone Pool” (or designated by appropriate pool name at the Division’s discretion). Upon creation of the Wolfbone Pool, the proposed wells, unit, and pooled minerals interests would be developed within the Wolfbone Pool whose vertical extent encompasses both the Third Bone Spring and Upper Wolfcamp formations. The purpose of this Application is to reopen Case Nos. 22853 and 23295 (“Subject Cases”) as provided for by OCD Order No. R-23132. Cimarex requests that the Division designate Cimarex as the operator of the well and unit described in the Application for pooling the Wolfbone Pool, attached hereto as Exhibit 3, and as operator of the wells in the Pooling Application Cimarex filed in Case No. 23295, as amended and reformed herein, for pooling Cimarex’s Bone Spring wells.

In support of its Application for a Wolfbone Pool, Cimarex states the following:

1. The Wolfbone Pool, proposed herein specifically for the Subject Cases would comprise approximately 320.00 acres, more or less, in Lea County, New Mexico, a spacing unit that encompasses lands comprised of four state leases: NM-V0802341, NM-V0156512, NM-V067570, and NM-OG47692. The acreage for the proposed Wolfbone Pool covers lands as follows: The W/2 W/2 of Section 12 and the W/2 W/2 of Section 13, in Township 19 South, Range 34 East, NMPM, Lea County, New Mexico (“Subject Lands”).

2. Cimarex is both a working interest owner and controls working interest in the Subject Lands encompassing the proposed Wolfbone Pool. Under the Oil and Gas Act (“Act”), a pool is defined as “an underground reservoir containing a common accumulation of crude petroleum oil or natural gas or both. Each zone of a general structure, which zone is completely separate from any other zone in the structure, is covered by the word “pool” as used in the Oil and Gas Act. “Pool” is synonymous with “common source of supply” and with “common reservoir.” NMSA 1978 § 70-2-33B.

3. On or about May 3, 2022, Pride Energy Company (“Pride”) submitted an application to the OCD to pool the Wolfcamp formation underlying a horizontal spacing unit comprised of Subject Lands. In its application, Pride dedicated the spacing unit to the Go State Com Well No. 401H (“Go State 401H”), a well which Pride proposed to drill into the Upper Wolfcamp as the target interval, located adjacent to and just 100’ below the Third Bone Spring. *See* Pride’s Pooling Application in Case No. 22853; *see also* Attachment B in Pride’s Geology Exhibits; Pride’s Well Proposal for its Go State 401H; Attachment D of Pride’s Landman Exhibit.

4. When it received Pride’s Proposal for its Go State 401H Well, Cimarex recognized that the depth listed in the Wolfcamp, if the well were to be drilled, would produce mainly from the Third Bone Spring which historically is the more common target zone for production in this

area of Lea County. *See* Exhibit C-1, Cimarex’s Hearing Packet; *see also* Self-Affirmed Statement of Staci Mueller, Exhibit B, ¶ 14, Cimarex’s Hearing Packet. The geological feature that creates the open communication and intermixing of hydrocarbons is the lack of baffles and natural geological barriers between the Upper Wolfcamp and Third Bone Spring formations. *See* Order No. R-23132, Findings of Fact, ¶¶ 6-8 (In the OCD’s finding that the lands lack baffles and thus resulting in open communication between the Upper Wolfcamp and the Third Bone Spring, the OCD made reference to Cimarex’s showing that because there is no indication of frac baffles between the 3rd Bone Spring Sand and the Upper Wolfcamp, “Pride’s Wolfcamp well will produce mostly out of the 3rd Sand,” and Pride’s own Geologist stating that he “looked at the Cimarex geology presentation also” and is “in agreement with that [there are no baffles].”)

5. In order to avoid the Third Bone Spring being substantially drained by Pride’s proposed Wolfcamp well, and thus, to protect its correlative rights, Cimarex, on or about December 15, 2022, filed a competing pooling application in Case No. 23295 for its plan to develop the Third Bone Spring underlying the Subject Lands, and the two competing applications were heard on July 20, 2023. Subsequently, the Division issued Order No. R-23132 on April 8, 2024, in which, based on its finding of communication between the two formations, the Division concluded that the evidence of record “indicates that Pride’s and Cimarex’s proposals would lead to either impairment of correlative rights or illegal allocation,” and therefore both applications were denied, with the opportunity for the applicants to submit a proposal or proposals for a special pool, a Wolfbone pool, that would account for the lack of baffles between the Bone Spring and Wolfcamp formations. *See* Order No. R-23132, ¶¶ 18-20. Accordingly, Cimarex proposes herein a Wolfbone pool for proper development of the Showbiz 13-12 State Com 301H Well that Cimarex proposed to drill in the Third Bone Spring formation. As part of the application process, notice

will be provided to operators of units within one mile of the proposed unit pursuant to 19.15.4.12A(4).

6. Cimarex proposes a vertical extent of the proposed Wolfbone Pool that conforms with 19.15.12.9 NMAC, to insure pool segregation from adjacent pools, reservoirs, and common sources of supply. Thus, Cimarex proposes the upper limit of the Wolfbone Pool to be the stratigraphic equivalent of the top of the Third Bone Spring, located at approximately 10,620 feet measured depth, to the stratigraphic equivalent of the base of the Wolfcamp A shale, located at approximately 11,225 feet measured depth, as found in triple combo well log of the Quail Ridge 32 State 2 Well (API No. 30-025-37703). See Exhibit 1 attached hereto, outlining the vertical extent of the proposed Wolfbone Pool.

7. Cimarex requests that the Division create the proposed Wolfbone Pool by including provisions in the Division's order for the vertical contraction of two pools, the Scharb; Bone Spring (Code 55610), as referenced in Cimarex's Exhibits for the Bone Spring, and the WC-025 G-09S203435D; Wolfcamp (Code 92847), as referenced in Pride's Exhibits for the Upper Wolfcamp, in a manner that avoids overlap with the proposed Wolfbone Pool. The base of the Scharb; Bone Spring (Code 55610) is to be contracted to approximately 10,620 feet, a depth equivalent to the top of the Third Bone Spring, and the top of the WC-025 G-09S203435D; Wolfcamp (Code 92847) is to be contracted to approximately 11,225 feet, the depth of the base of the Wolfcamp A Shale, as found in said triple combo well log of the Quail Ridge 32 State 2 Well (API No. 30-025-37703). The creation of the Wolfbone Pool through the contraction of the Third Bone Spring and Upper Wolfcamp pools is limited to the Subject Lands as described, *supra*, in Paragraph 1. Cimarex requests that the Division's statewide rules apply to the Wolfbone Pool.

8. The vertical extent of the proposed Wolfbone Pool does incorporate an ownership depth severance that is located at the boundary line between the top of the Wolfcamp formation and the base of the Bone Spring formation, as acknowledged by both Cimarex and Pride. *See* Exhibit B, ¶ 13, and Exhibit B-8, Cimarex's Hearing Packet; Pride's Landman Statement (Self-Verified Statement of Matthew L. Pride), ¶ 5. More specifically, the depth severance is found at the division between the top of the Wolfcamp XY/base of the Third Bone Spring Sands, at a depth of the stratigraphic equivalent of approximately 10,880 feet TVD, as found in said triple combo well log of the Quail Ridge 32 State 2 Well (API No. 30-025-37703).

9. The severance results in only one owner, Pride, (the competing applicant who owns only in the Wolfcamp) being excluded from the Third Bone Spring formation. Furthermore, Cimarex is the only other party that has non-uniform ownership between the two formations, owning 50% in the Bone Spring and 25% in the Wolfcamp. All other Wolfcamp owners have uniform ownership, owning the same amount in both the Bone Spring and Wolfcamp. *Compare, e.g.,* Pride's Ownership Exhibit (Pride's Attachment B) for the Wolfcamp with Cimarex's Ownership Exhibit A-2 in its Hearing Packet; *see also* Tr. 114: 1-25; 115: 1-25; and 116: 1-10 (Pride acknowledging that besides Cimarex only Pride has non-uniform ownership and therefore all the other owners would receive their just and fair share of production, and their correlative rights would not be violated, because their ownership is uniform).

10. In the competing pooling applications, Cimarex's plan focuses on developing the entire Bone Spring formation with the Showbiz 13-12 State Com 101H Well proposed to be drilled into the First Bone Spring, the Showbiz 13-12 State Com 201H Well proposed to be drilled into the Second Bone Spring, and the Showbiz 13-12 State Com 301H Well proposed to be drilled in the Third Bone Spring. *See* Exhibit A-3, Cimarex's Hearing Packet.

11. In contrast, Pride's plan focuses on drilling only the Upper Wolfcamp formation with its one well, the Go State Com Well No. 401H. *See* Pride's Exhibit 2, ¶ 2 (Self-verified Statement of Matthew L. Pride). Because of the lack of barriers between the Third Bone Spring and the Upper Wolfcamp, the Division recognized that Pride's one well would produce predominately from the Third Bone Spring formation. *See* Order No. R-23132, Findings of Fact, ¶¶ 6-8. Furthermore, Cimarex's 301H Well would produce partly from the Upper Wolfcamp. *See id.* Consequently, the Division denied both competing applications and invited the applicants to submit applications for the creation of a Wolfbone pool that would encompass both the Third Bone Spring formation and the Upper Wolfcamp formation, resulting in the submission of the present Wolfbone application. *See id.* at ¶ 20.

12. However, because the development plan proposed by each party drills a well either below the depth severance in the Upper Wolfcamp (Pride's plan) or above the depth severance in the Third Bone Spring (Cimarex's plan) but not in both formations due to the lack of natural barriers, there must be a method to account for the depth severance within the proposed Wolfbone pool that would provide for the segregation of Third Bone Spring production from Upper Wolfcamp production, otherwise correlative rights would not be protected for the owners who have non-uniform ownership.

13. Typically, a depth severance occurs between two formations where there are natural barriers (baffling) between the formations, which allows an operator to drill a well ("First Well") above the severance in the top formation and drill an additional well ("Second Well") below the severance in the lower formation and allocate all of the production from the First Well to the owners in the top formation, above the severance, and allocate all of the production from the Second well to the owners in the lower formation, below the severance. When natural barriers

coincide with the severance, the Division will recognize this method of drilling a well above and below the depth severance as a valid method for allocation.

14. However, if there are no natural barriers or baffling between the two formations to prevent communication of product, as is the case herein, then drilling a well both above and below the severance does not protect correlative rights, but only further violates correlative rights and results in substantial economic waste and the redundant drilling of unnecessary wells into the same reservoir, as both the First Well and the Second Well, would produce from each formation in an unknown and unmeasurable amount, resulting in the intermixing of production in violation of Division Rules.

15. In the situation of the present cases, where a single Wolfbone pool must be created to cover both formations (Third Bone Spring and Upper Wolfcamp), Cimarex respectfully requests that the Division adopt a method of allocation that would account for the percentage of production that comes from each formation, above and below the ownership severance, thus avoiding the drilling of unnecessary wells. Cimarex submits that the only method of allocation that can accomplish this, given the lack of baffles, is the allocation of a percentage of production from each formation based on PhiH porosity analysis. PhiH analysis allows one to accurately determine the percentage of production that each formation (the Third Bone Spring and the Upper Wolfcamp) in the Wolfbone Pool will contribute by measuring the porosity of each formation. *See, e.g.*, Exhibit B-5 and Exhibit B, ¶ 10, Cimarex's Hearing Packet. Furthermore, this method of allocation would be available to any Operator drilling the Wolfbone Pool proposed for the Subject Lands, regardless of whether Cimarex or Pride are granted operatorship, as long as the Operator does not drill both the Third Bone Spring and the Upper Wolfcamp in the Wolfbone pool which would improperly intermix production.

16. Accordingly, the PhiH analysis of the Subject Lands shows approximately 66.4 percent of production from Cimarex's 301H well drilled into the Third Bone Spring formation of the proposed Wolfbone pool would come from the Third Bone Spring formation ("Third Bone Spring Interval") and 33.6 percent of production from the Wolfbone would come from the Upper Wolfcamp formation ("Upper Wolfcamp Interval"). *See* Exhibit B, ¶ 10, Cimarex's Hearing Packet. The ownership of the entire Third Bone Spring Interval is uniform, and the ownership of the Upper Wolfcamp Interval is also uniform, because, as required by statute, each owner in each Interval owns a uniform acre tract in that Interval so that production for the Interval can be allocated in the proportion that the surface acres of said tract in each Interval bear to the surface acres of the entire unit, thus conforming to the pooling statute. *See* § 70-2-17C.

17. The following is an example, based on Pride's ownership, of how the allocation formula would work. Pride's ownership between the Upper Wolfcamp and Third Bone Spring is non-uniform, as Pride owns a different number of net acres in the Upper Wolfcamp Interval (80 acres of the total 320 acres of the Subject Lands or 25%) than in the Third Bone Spring Interval (in which Pride owns no interest (zero acres) of the total 320 acres or 0%), *see* Pride's Attachment B (Ownership) in its Exhibits. Under Cimarex's allocation formula, Pride would receive 0/320 (or 0%) of production from the Bone Spring Interval and would be allocated 80/320 (or 25%) of production from the Wolfcamp Interval. Since the Bone Spring Interval accounts for 66.4% of total production from the Wolfbone Pool, while the Wolfcamp Interval accounts 33.6% of total production, Pride's just and equitable share of the oil produced from the Wolfbone Pool based on its Bone Spring working interest would be 0% of 66.4% of Wolfbone production, which is 0%, and Pride's just and equitable share of oil produced from the Wolfbone Pool based on its Wolfcamp working interest would be 25% of 33.6% of the Wolfbone production, which is 8.4%. Thus, Pride

would receive 8.4% of the total production from the Wolfbone based on the PhiH allocation formula, reflecting its just and equitable share of production from the Wolfbone Pool (as any owner with non-uniform ownership would receive in the Wolfbone)¹ pursuant to statutory requirements based on actual amounts produced from each formation “so far as can be practically determined.” See § 70-2-17A.

18. Cimarex’s development plan of drilling a single well in the Wolfbone Pool, the single well located in the Third Bone Spring formation where the greatest concentration of hydrocarbons resides within the Wolfbone (*see* Exhibit B, ¶ 10, Cimarex’s Hearing Packet), would both optimally produce the Wolfbone Pool and provide the conditions for proper allocation of production between the Third Bone Spring owners and the Upper Wolfcamp owners based on PhiH porosity which would be used to establish two Intervals or Zones – Interval/Zone A covering the Third Bone Spring, where approximately 66.4% of the hydrocarbons reside, and Interval/Zone B covering the Upper Wolfcamp, where approximately 33.6% of the hydrocarbons reside.

19. There is clear and established precedent for the Division to provide an allocation method based on percentages of ownership within individual intervals of a pool when circumstances require this approach in order to meet the Division’s obligations of the Oil and Gas Act (“Act”) and its rules. The Division has addressed non-uniform ownership within a pool pursuant to the pooling statutes while avoiding the drilling of unnecessary wells and protecting correlative rights in a precise manner in Case No. 13132. *See* Order No. R-12094 at p. 4, ¶ 7, issued in Case No. 13132, attached hereto as Exhibit 2 (stating that production from the subject well shall be allocated among three Morrow zones such that Zone A [11,366-11,761 feet] produces 76.4%

¹ It should be noted that only Pride and Cimarex have non-uniform ownership between the Bone Spring and Wolfcamp formations, and therefore, only these two owners will be relying on the PhiH-based allocation formula. All the other owners have uniform ownership between the two formations/intervals within the Wolfbone and thus would receive their uniform percentage of ownership.

of the pool, Zone B [11,761-11,766 feet] produces 0.967% of the pool, and Zone C [11,766-11,883 feet], produces 22.63% of the pool, and within each zone, costs and production shall be allocated based upon each owner's percentage interest ownership).

20. In the original contested hearing, Cimarex submitted its application in Case No. 23295 for wells in the First, Second and Third Bone Spring, and Pride submitted its application in Case No. 22853 for its well in the Upper Wolfcamp. Since the special Wolfbone Pool as proposed herein would be created by combining and including the Third Bone Spring formation and Upper Wolfcamp formation in the Wolfbone Pool, Cimarex's proposed Showbiz 13-12 State Com 301H drilled into the Third Bone Spring formation would be the well that is located in and that would optimally produce the Wolfbone Pool. Cimarex's other two wells, the Showbiz 13-12 State Com 101H Well and Showbiz 13-12 State Com 201H Well, would remain in the Bone Spring Pool.

21. Therefore, as part of this Application for a Wolfbone Pool, Cimarex requests that its pooling application in Case No. 23295 be amended and reformed so that the Showbiz 13-12 State Com 101H and 201H Wells would remain in the Bone Spring Spacing Unit, comprised of the First and Second Bone Spring formations, to be pooled under Cimarex's Application in Case Nos. 23295, and the Showbiz 13-12 State Com 301H Well be removed to and included in the separate pooling application, attached hereto as Exhibit 3, submitted as a part of the same case number as Cimarex's Application for a Wolfbone Pool, and if the OCD finds to be appropriated, assigned the same case number, in order for Cimarex to pool all owners in the Wolfbone Pool concurrently with the creation of the Wolfbone Pool.

WHEREFORE, Cimarex requests that this Application to Create a Special Pool, the Wolfbone Pool, and the concurrent Application for Pooling the Wolfbone, attached hereto as Exhibit 3, be provisionally set for hearing on August 8, 2024, and scheduled for a later contested

hearing date as necessary, before an Examiner of the Oil Conservation Division, and after notice and hearing as required by law, pursuant to the reasons stated herein, in Cimarex's Closing Statement, and in the Division's guidance under Order No. R-23132, the Division enter an order:

A. That creates, pursuant to this Application, a new special pool, the Quail Ridge; Wolfbone Pool (or name to be designated at the discretion of the OCD), that includes the Subject Lands, as described above in Paragraph 1, and includes the vertical extent ranging from the top of the Third Bone Spring formation to the base of the Upper Wolfcamp formation, that being the base of the Wolfcamp A, as described above in Paragraph 6, in such manner that statewide rules apply to the special pool.

B. That re-opens the hearing record in the Subject Cases and allows for any adjustments or modifications that would facilitate a continuation of the proceedings, including but not limited to, any allowances or provisions for updating well proposals and notices necessary for incorporating into the proceedings the creation of the Wolfbone Pool.

C. That creates the proposed Wolfbone Pool by contracting two pools, the Scharb; Bone Spring (Code 55610) and the WC-025 G-09S203435D; Wolfcamp (Code 92847) in a manner that avoids overlap with the proposed Wolfbone Pool, as described, *supra*, in Paragraph 6.

D. That adopts and implements Cimarex's allocation formula based on PhiH porosity for the allocation of production to owners (Pride and Cimarex) that have non-uniform ownership in the proposed Wolfbone Pool;

E. That approves Cimarex Pooling Application for the Wolfbone Pool, attached hereto as Exhibit 3, thus granting Cimarex operatorship of the Showbiz 13-12 State Com 301H Well and the Wolfbone spacing unit underlying the Subject Lands;

F. That amends and reforms Cimarex Pooling Application filed under Case No. 23295 in order to pool the Bone Spring spacing unit underlying the Subject Lands, thereby granting Cimarex operatorship of the Showbiz 13-12 State Com 101H and 201H Wells and spacing unit in the Bone Spring formation.

G. That denies Pride's competing pooling application filed in Case No. 22853 and denies Pride's development plan for the Subject Lands.

H. That denies Pride's competing application for a special pool and adopts and approves instead Cimarex's proposal and development plan for the Wolfbone Pool; and

I. That provides any such additional relief deemed necessary by the Division at its discretion.

Respectfully Submitted,

ABADIE & SCHILL, PC

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Application of Cimarex Energy Co. for the Creation of a Special Pool, a Wolfbone Pool, Pursuant to Order No. R-23132, to Reopen Case Nos. 22853 and 23295 and to Approve a Pooling Application for the Wolfbone Pool, Lea County, New Mexico. Applicant in the above-styled cause seeks an order from the Division creating a special pool, the proposed Quail Ridge; Wolfbone Pool (or pool name for the Wolfbone to be designated by the Division), pursuant to Order No. R-23132, within the W/2 W/2 of Sections 12 and 13, in Township 19 South, Range 34 East, NMPM, Lea County, New Mexico (“Subject Lands”). Applicant proposes that Division’s statewide rules apply to spacing units and well locations within the Quail Ridge; Wolfbone Pool. The vertical extent of the proposed Wolfbone Pool will be the stratigraphic equivalent of the top of the Third Bone Spring, as the upper limit, located at approximately 10,620 feet measured depth, to the stratigraphic equivalent of the base of the Wolfcamp A shale, being the lower limit, located at approximately 11,225 feet measured depth, as found in the triple combo well log for the Quail Ridge 32 State 2 well (API No. 30-025-37703). Applicant will seek an order from the Division for the vertical extent by requesting the contraction of two pools, the Scharb; Bone Spring (Code 55610), as referenced in Cimarex’s Exhibits for the Bone Spring, and the WC-025 G-09S203435D; Wolfcamp (Code 92847), as referenced in Pride’s Exhibits for the Upper Wolfcamp, in a manner that avoids overlap with the proposed Quail Ridge; Wolfbone Pool. The base of the Scharb; Bone Spring (Code 55610) is to be contracted to approximately 10,620 feet, a depth equivalent to the top of the Third Bone Spring, and the top of the WC-025 G-09S203435D; Wolfcamp (Code 92847) is to be contracted to approximately 11,225 feet, the depth of the base of the Wolfcamp A Shale, as found in said triple combo well log of the Quail Ridge 32 State 2 Well (API No. 30-025-37703). To the extent necessary, Cimarex will request authorization for surface commingling. Also to be considered will be the re-opening of Case Nos. 22853 and 23295, for the purpose of continuing the Division’s review of pooling applications filed in said Cases in order to determine operatorship of units and wells proposed by the pooling applications, including Applicant’s pooling application for the Wolfbone Pool underlying the Subject Lands, in which Applicant seeks an order from the Division pooling all mineral interests in the Wolfbone Pool, consisting of the Third Bone Spring and Upper Wolfcamp formations, underlying a standard 320-acre, more or less, horizontal spacing and proration unit comprised of the Subject Lands. The proposed well to be dedicated to the horizontal spacing unit is the **Showbiz 13-12 State Com 301H Well**, an oil well, to be horizontally drilled from a surface location in the SW/4 SW/4 (Unit M) of Section 13 to a bottom hole location in the NW/4 NW/4 (Unit D) of Section 12. The well will be orthodox, and the take points and completed interval will comply with the setback requirements under the statewide Rules; also to be considered will be the cost of drilling and completing the well and the allocation of the costs thereof; actual operating costs and charges for supervision; the designation of the Applicant as Operator of the wells and unit; and a 200% charge for the risk involved in drilling and completing the well. The Subject Lands are located approximately 20 miles of Southwest of Lovington, New Mexico.

CERTIFICATE OF SERVICE

I hereby certify that on July 9, 2024, I served a copy of the foregoing document to the following counsel of record via Electronic Mail to:

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/s/ Darin C. Savage

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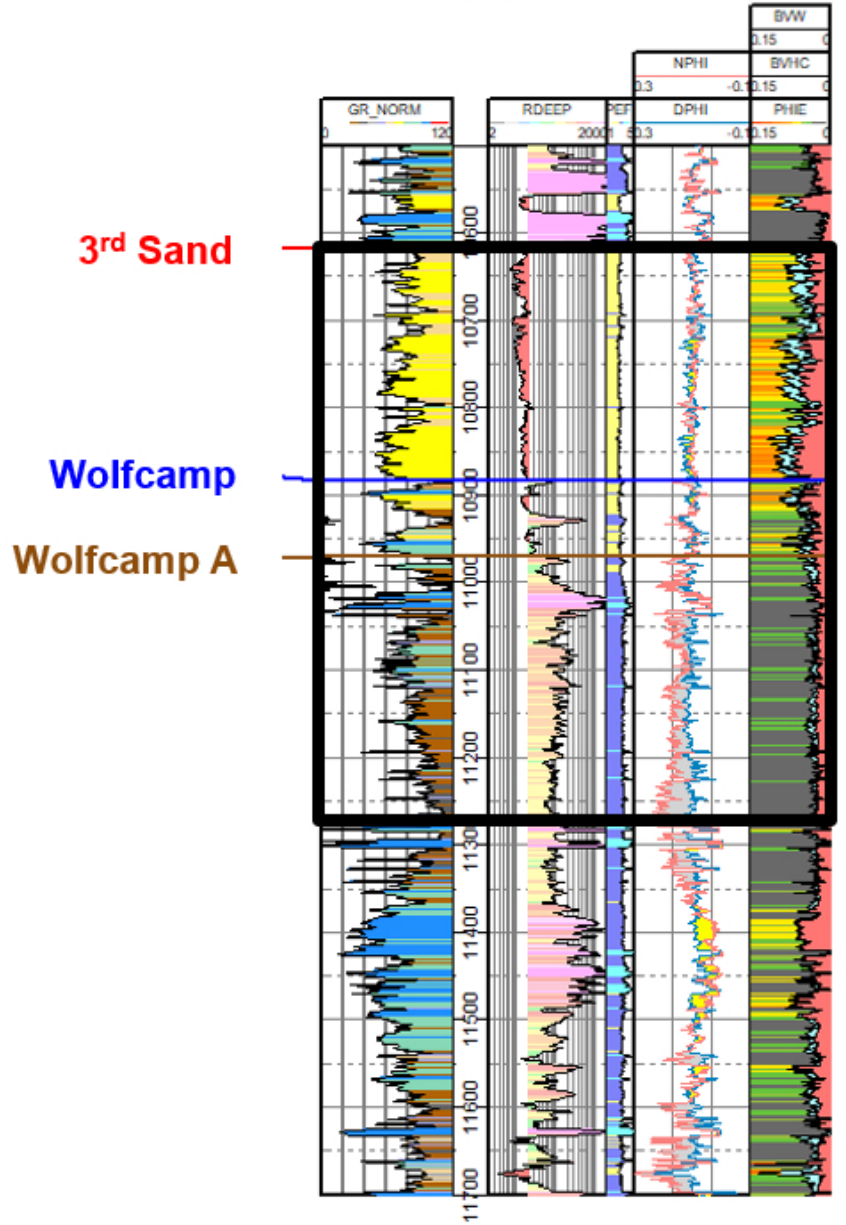


Exhibit 1

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 13132
ORDER NO. R-12094

APPLICATION OF DEVON ENERGY PRODUCTION COMPANY, L.P. FOR
COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on November 20, 2003 at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 4th day of February, 2004, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and of the subject matter.

(2) The applicant, Devon Energy Production Company, L.P. ("Applicant"), seeks an order pooling all uncommitted mineral interests in the Morrow formation underlying Lots 1 and 2, the S/2 NE/4 and the SE/4 (E/2 equivalent) of Section 6, Township 23 South, Range 27 East, NMPM, Eddy County, New Mexico, to form a standard 319.49-acre gas spacing and proration unit in the South Carlsbad-Morrow Gas Pool.

(3) The above-described unit ("the Unit") is to be dedicated to the proposed Joell Well No. 2 to be drilled at a standard gas well location 1330 feet from the North and East lines (Unit G) of Section 6.

(4) Two or more separately owned tracts are embraced within the Unit, and/or there are royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in the Unit that are separately owned.

Exhibit 2

Case No. 15152
Order No. R-12094
Page 2

(5) Applicant is an owner of an oil and gas working interest within the Unit. Applicant has the right to drill and proposes to drill the Joell Well No. 2 to a common source of supply in the Morrow formation at a standard gas well location within the SW/4 NE/4 of Section 6.

(6) There are interest owners in the proposed Unit that have not agreed to pool their interests.

(7) The applicant presented evidence that demonstrates that:

- (a) the Morrow formation underlying the Unit covers the subsurface interval from approximately 11,366 feet to 11,883 feet;
- (b) the Morrow formation within the E/2 of Section 6 is potentially productive from both the Middle-Morrow zone and the Lower-Morrow zone; and
- (c) the available geologic data suggests that a reasonable operator should test the entire Morrow interval in any well drilled within the E/2 of Section 6.

(8) The Morrow formation underlying the E/2 of Section 6 is divided into three zones, with different sets of ownership in each of these zones. These zones are described as follows:

- (a) 11,366-11,761 feet subsurface, which is 76.402321% of the Morrow interval. This portion of the Morrow formation is subject to an operating agreement entered into in 1970;
- (b) 11,761-11,766 feet subsurface, which is 0.967118% of the Morrow interval. This portion of the Morrow formation is also subject to the above-described operating agreement; and

Case No. 15154
Order No. R-12094
Page 3

(c) 11,766-11,883 feet subsurface, which is 22.630561% of the Morrow interval. This portion of the Morrow formation is not subject to the above-described operating agreement.

(9) The operator under the operating agreement is Chaparral Energy, L.L.C. ("Chaparral"). Chaparral however, owns no working or other interest in the Morrow formation underlying the E/2 of Section 6.

(10) Applicant requests pooling of the lower portion of the Morrow formation that is not subject to the operating agreement. The applicant further requests that the Division approve a cost and production allocation between the three Morrow zones that is based upon the footage ratio described in Finding No. (8) above. The applicant further requests that it be named operator of the entire Morrow interval within the E/2 of Section 6.

(11) Chaparral was provided notice in this case, but did not appear at the hearing.

(12) The applicant testified that it is still negotiating with Chaparral the terms by which it will be allowed to drill and operate the proposed Joell Well No. 2. As of the hearing date, no agreement has been reached between these parties.

(13) A number of interest owners in the E/2 of Section 6 have entered into a voluntary agreement apportioning production based upon the percentages set forth in Finding No. (8) above.

(14) The working interest owners in the E/2 of Section 6 have received a demand from royalty owners to develop the acreage.

(15) The applicant's proposed cost and production allocation is fair and reasonable and should be approved.

(16) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the Unit the opportunity to recover or receive without unnecessary expense its just and fair share of hydrocarbons, this application should be approved by pooling all uncommitted interests, whatever they may be, in the oil and gas within the Unit.

CASE NO. 15154
Order No. R-12094
Page 4

(17) Applicant should be designated the operator of the subject well and of the Unit.

(18) Any pooled working interest owner who does not pay its share of estimated well costs should have withheld from production its share of reasonable well costs plus an additional 200% thereof as a reasonable charge for the risk involved in drilling the well.

(19) Reasonable charges for supervision (combined fixed rates) should be fixed at \$6,000.00 per month while drilling and \$600.00 per month while producing, provided that these rates should be adjusted annually pursuant to Section III.1.A.3. of the COP AS form titled "Accounting Procedure-Joint Operations."

IT IS THEREFORE ORDERED THAT :

(1) Pursuant to the application of Devon Energy Production Company, L.P., all uncommitted interests, whatever they may be, in the oil and gas in the Morrow formation underlying Lots 1 and 2, the S/2 NE/4 and the SE/4 (E/2 equivalent) of Section 6, Township 23 South, Range 27 East, NMPM, Eddy County, New Mexico, are hereby pooled to form a standard 319.49-acre gas spacing and proration unit in the South Carlsbad-Morrow Gas Pool. The above-described unit shall be dedicated to the proposed Joell Well No. 2 to be drilled at a standard gas well location 1330 feet from the North and East lines (Unit G) of Section 6.

(2) The operator of the Unit shall commence drilling the proposed well on or before May 1, 2004 and shall thereafter continue drilling the well with due diligence to test the Morrow formation.

(3) In the event the operator does not commence drilling the proposed well on or before May 1, 2004, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause.

(4) Should the subject well not be drilled and completed within 120 days after commencement thereof, Ordering Paragraph (1) shall be of no further effect, and the unit created by this Order shall terminate unless the operator appears before the Division Director and obtains an extension of time to complete the well for good cause demonstrated by satisfactory evidence.

Case No. 15154
Order No. R-12094
Page 5

(5) Upon final plugging and abandonment of the subject well, the pooled unit created by this Order shall terminate, unless this order has been amended to authorize further operations.

(6) Applicant is hereby designated the operator of the subject well and of the Unit.

(7) Well costs and production from the subject well shall be allocated among the three Morrow zones in the following proportions. Within each zone, costs and production shall be allocated based upon each owner's percentage interest ownership.

- (a) Zone A (11,366-11,761 feet subsurface): 76.402321%
- (b) Zone B (11,761-11,766 feet subsurface): 0.967118%
- (c) Zone C (11,766-11,883 feet subsurface): 22.630561%

(8) After pooling, uncommitted working interest owners are referred to as pooled working interest owners. ("Pooled working interest owners" are owners of working interests in the Unit, including **unleased** mineral interests, who are not parties to an operating agreement governing the Unit.) After the effective date of this order, the operator shall furnish the Division and each known pooled working interest owner in the Unit an itemized schedule of estimated costs of drilling, completing and equipping the subject well ("well costs").

(9) Within 30 days from the date the schedule of estimated well costs is furnished, any pooled working interest owner shall have the right to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production as hereinafter provided, and any such owner who pays its share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges. Pooled working interest owners who elect not to pay their share of estimated well costs as provided in this paragraph shall thereafter be referred to as "non-consenting working interest owners."

Case No. 15152
Order No. R-12094
Page 6

(10) The operator shall furnish the Division and each known pooled working interest owner (including non-consenting working interest owners) an itemized schedule of actual well costs within 90 days following completion of the proposed well. If no objection to the actual well costs is received by the Division, and the Division has not objected within 45 days following receipt of the schedule, the actual well costs shall be deemed to be the reasonable well costs. If there is an objection to actual well costs within the 45-day period, the Division will determine reasonable well costs after public notice and hearing.

(11) Within 60 days following determination of reasonable well costs, any pooled working interest owner who has paid its share of estimated costs in advance as provided above shall pay to the operator its share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator the amount, if any, that the estimated well costs it has paid exceed its share of reasonable well costs.

(12) The operator is hereby authorized to withhold the following costs and charges from production:

- (a) the proportionate share of reasonable well costs attributable to each non-consenting working interest owner; and
- (b) as a charge for the risk involved in drilling the well, 200% of the above costs.

(13) The operator shall distribute the costs and charges withheld from production, proportionately, to the parties who advanced the well costs.

(14) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$6,000.00 per month while drilling and \$600.00 per month while producing, provided that these rates shall be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "Accounting Procedure-Joint Operations." The operator is authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to pooled working interest owners.

Case No. 13132
Order No. R-12094
Page 7

(15) Except as provided in Ordering Paragraphs (11) and (13) above, all proceeds from production from the well that are not disbursed for any reason shall be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership. The operator shall notify the Division of the name and address of the escrow agent within 30 days from the date of first deposit with the escrow agent.

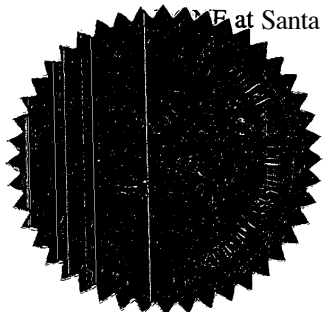
(16) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(17) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(18) The operator of the well and Unit shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(19) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

WITNESSED at Santa Fe, New Mexico, on the day and year hereinabove designated.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Lori Wrotenbery
LORI WROTENBERY
Director

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

APPLICATION OF CIMAREX ENERGY CO.
FOR COMPULSORY POOLING OF A SPACING UNIT IN A
SPECIAL WOLFBONE POOL, LEA COUNTY, NEW MEXICO

Case No. _____

APPLICATION

Cimarex Energy Co. (“Cimarex”), OGRID No. 215099, through its undersigned attorneys, hereby files this Application with the Oil Conservation Division (“Division” or “OCD”) pursuant to the provisions of NMSA 1978, Section 70-2-17, seeking an order to pool all uncommitted mineral interests in a Wolfbone Pool, a single reservoir that would be designated as an oil pool, consisting of the Third Bone Spring and Upper Wolfcamp formations, underlying a standard 320-acre, more or less, spacing and proration unit comprised of the W/2 W/2 of Sections 12 and 13, Township 19 South, Range 34 East, NMPM, Lea County, New Mexico.

In support of its Application, Cimarex states the following:

1. This Application is provided to the Division
2. Cimarex is a working interest owner in the proposed horizontal spacing and proration unit (“HSU”) and has a right to drill a well thereon.
3. This Application is filed in competition with the application filed by Pride Energy Company in Case No. 22853 for a contested hearing on February 16, 2023, pursuant to Amended Pre-hearing Order dated November 17, 2022.
4. Cimarex proposes and dedicates to the HSU as the initial well the **Showbiz 13-12 State Com 301H Well** to be drilled to a sufficient depth to test the Wolfbone Pool.

Exhibit 3

5. Cimarex proposes the **Showbiz 13-12 State Com 301H Well**, an oil well, to be horizontally drilled from a surface location in the SW/4 SW/4 (Unit M) of Section 13 to a bottom hole location in the NW/4 NW/4 (Unit D) of Section 12.

6. The proposed well is orthodox in its location, and the take points and completed interval comply with setback requirements under the statewide rules.

7. Cimarex's good-faith review of the Division records revealed no apparent overlapping units; if an overlapping unit should be discovered, the Applicant will provide notice to affected persons during the permitting process pursuant to Rule 19.15.15.12B(1).

8. Cimarex has sought in good faith, but has been unable to obtain, voluntary agreement from all interest owners to participate in the drilling of the wells or in the commitment of their interests to the wells for their development within the proposed HSU.

9. The pooling of all interests in the Bone Spring formation within the proposed HSU, and creation of the spacing unit, will avoid the drilling of unnecessary wells, prevent waste, and protect correlative rights.

10. In order to provide for its just and fair share of the oil and gas underlying the subject lands, Cimarex requests that all uncommitted interests in this HSU be pooled and that Cimarex be designated the operator of the proposed horizontal wells and HSU.

WHEREFORE, Cimarex requests that this Application be set for a hearing on August 8, 2024, and included with the same case number in the contested hearing for the Wolfbone Application, which includes this pooling application as Exhibit X, and after notice and hearing as required by law, the Division enter an order:

- A. Establishing a standard 320-acre, more or less, spacing and proration unit comprised of the W/2 W/2 of Sections 12 and 13, Township 19 South, Range 34 East, NMPM, Lea County, New Mexico;
- B. Pooling all uncommitted mineral interests in the Wolfbone Pool underlying the proposed HSU.
- C. Approving the **Showbiz 13-12 State Com 301H Well** as the initial well for the HSU;
- D. Designating Cimarex as operator of this HSU and the horizontal well to be drilled thereon;
- E. Authorizing Cimarex to recover its costs of drilling, equipping, and completing the well;
- F. Approving actual operating charges and costs of supervision, to the maximum extent allowable, while drilling and after completion, together with a provision adjusting the rates pursuant to the COPAS accounting procedures; and
- G. Setting a 200% charge for the risk assumed by Cimarex in drilling and completing the well in the event a working interest owner elects not to participate in the wells.

Respectfully submitted,

ABADIE & SCHILL, PC

/s/ Darin C. Savage

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